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UNCLAS SECTION 01 OF 18 TAIPEI 000103

SIPDIS

STATE PLEASE PASS AIT/W, USTR AND OPIC

STATE FOR EAP/RSP/TC AND EB/IFD/OIA  
USTR FOR WINTER AND WINELAND  
USDOC FOR 4430/ITA/MAC/AP/OPB/JKELLY/MBMORGAN  
USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER  
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT  
TREASURY FOR OASIA/LMOGHTADER  
TREASURY PLEASE PASS TO OCC/AMCMAHON  
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF  
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

SIPDIS

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TAGS: [EINV](#) [EFIN](#) [ECON](#) [OPIC](#) [KTDB](#) [USTR](#) [TW](#)

SUBJECT: Taiwan: 2005 INVESTMENT CLIMATE STATEMENT

REF: 2005 STATE 201904

11. The following is the Taiwan Investment Climate Statement for 2005, as requested reftel. A copy has been transmitted by e-mail to EB/IFD/OIA.

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A.1 Openness to Foreign Investment  
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12. Taiwan officially welcomes foreign direct investment, which at the end of 2004 amounted to 19.8 percent of GDP. Although authorities have taken steps to improve the investment climate, U.S. firms report that impediments remain in some sectors, especially services. Rules on local licensing of professionals are cited as a barrier to foreign providers of some services. Taiwan's science-based industrial parks and export processing zones by contrast offer streamlined procedures. While Taiwan has made significant improvement in protecting intellectual property, some foreign firms still cite inadequate protection as a deterrent to investing.

13. As part of its efforts to improve the investment climate, Taiwan no longer has a list of permitted investments, but maintains a negative list of industries closed to foreign investment (i.e., only those industries on the list are not open to foreign investment). Liberalization has reduced the list to less than one percent of manufacturing categories and less than five percent of service industries. Some foreign investors believe that liberalization of investment regulations has proceeded faster than corresponding adjustments in attitudes of officials implementing the regulations. The latest significant liberalization took place in February of 2003 when alcohol production, agricultural production, fishing, and animal husbandry were opened to foreign investors, although prior approval is still required from the Taiwan authorities. To live up to its WTO accession commitments,

Taiwan opened private production of cigarettes in 2004 without any foreign ownership limit. Railway transport (passenger and cargo), freight transport by small trucks, pesticide manufacture, brokerage and leasing and trading were all completely opened to foreign investment. After its accession to the WTO in January 2002, Taiwan opened imports of gasoline and liquid natural gas (LNG) to the private sector, without any foreign ownership restriction. It also permitted private wine and cigarette imports. In April 2004, Taiwan dropped mining and ordinary trucking services from but included single-axle truck leasing in the negative list.

¶4. Most foreign ownership limits have been removed, with a few exceptions. Taiwan-flagged merchant ships are subject to a foreign ownership limit of 66.66 percent. The foreign ownership limit on wireless and wireline telecommunications firms is 60 percent, including a direct foreign investment limit of 49 percent. For the former state-owned Chunghwa Telecom Co., which still controls 97 percent of the fixed line telecom market, the ceiling on direct and indirect foreign investment was raised to 35 percent in August 2004. In January 2003, Taiwan raised the foreign ownership limit on cable television broadcasting services from 50 percent to 60 percent, including a 20 percent limit on foreign direct investment. A 50 percent foreign ownership limit remains on satellite television broadcasting services, power transmission and distribution, piped distribution of natural gas, high-speed railways, ground-handling firms, air-cargo terminals, air-catering companies, and air-cargo forwarders. The 50 percent foreign ownership limit on ground-handling firms, air-cargo terminals, air-catering companies, and air-cargo forwarders was removed for investors coming from WTO

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members in November 2001. The foreign ownership limit on airline companies is 33 percent.

¶5. Regulations governing foreign direct investment principally derive from the Statute for Investment by Foreign Nationals (SIFN) and the Statute for Investment by Overseas Chinese (SIOC). These two laws permit foreign investors to invest in foreign currencies as well as in NT dollars. Companies reinvested by joint ventures with foreign ownership below 33 percent are exempt from limitations applicable to industries on the negative list. Both the SIFN and the SIOC specify that foreign-invested enterprises must receive the same regulatory treatment accorded local firms. Foreign companies may invest in firms undergoing privatization and are eligible to participate in public-financed research and development programs.

¶6. The Foreign Investment Commission (FIC) of the Ministry of Economic Affairs screens applications for investment, acquisitions, and mergers. According to the FIC, approximately 98 percent of projects with an investment value less than NT\$500 million (US\$14.9 million) are excluded from the negative list; the FIC estimates that approval for these projects is generally granted within three working days at the FIC division chief level. For investments in the range from NT\$500 million to NT\$1,500 million excluded from the negative list, approval authority rests with the FIC Executive Secretary and normally is granted within one week. Approval of investments in industries above NT\$1,500 million or on the negative list requires several weeks because those investments must be referred to the relevant supervisory ministries and require approval of the FIC Chairman or FIC Executive Secretary. Investments involving complicated terms such as merger and acquisition require screening at the monthly meeting of an inter-ministerial commission.

¶7. Taiwan offers incentives to encourage investment, including accelerated depreciation and tax credits for investments in emerging or strategic industries, pollution-control systems, production automation and energy

conservation. Equipment for R&D purposes can be brought into Taiwan duty-free. Other incentives include low-interest loans for developing new and/or cutting edge products, upgrading traditional industries, and importing automation or pollution-control equipment. A broad five-year tax holiday for new investments was re-instituted in January 1995. Incentives for manufacturing firms to locate factories in designated industrial parks prior to the end of December 2006 include free rent in the first two years, 40 percent discount on rent in the subsequent two years, and 20 percent discount in the fifth and sixth years. As part of its financial reform, Taiwan encourages banks, insurance companies, and securities firms to merge or transform into financial holding companies. Such mergers and transformations are eligible for incentives.

¶8. The Taiwan government will slash investment tax incentives as a part of a tax reform designed to reduce its fiscal deficit and outstanding public debt. A ten-percent alternate minimum tax on business firms is scheduled to be implemented in 2006. Laws and regulations will be amended to eliminate tax incentives for overseas operations of IC design firms and IC product engineering service firms. Taiwan government will cut the number of industries entitled to tax incentives by one-third and double the thresholds in annual R&D expenses for tax offset from NT\$15 - 20 million to NT\$30 - 40 million. The tax offset for procurement of automation equipment will be lowered from 11 percent to 7 percent and that for procurement of technologies reduced from 10 percent to 5 percent. The tax offset for projects in remote poor areas will be cut from 20 percent to 15

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percent.

¶9. In spite of the FIC and efforts to encourage investment, many foreign investors, especially small investors in the service sector, encounter cumbersome and non-transparent procedures when trying to establish businesses in Taiwan. Professionals such as lawyers, architects, accountants, and securities brokers all must pass local licensing exams before they can practice. Foreign investors report that a major attraction of investing in Taiwan's science-based industrial parks is the assistance provided in expediting needed approvals. Investors outside of these areas must seek approval from several central and local government offices. This can be daunting for the small investor without a local partner or agent.

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A.2 Conversion and Transfer Policies  
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¶10. There are relatively few restrictions on converting or transferring direct investment funds. Foreign investors with approved investments can readily obtain foreign exchange from a large number of designated banks. The remittance of capital invested in Taiwan is made according to a schedule submitted by the company to the FIC. Declared earnings, capital gains, dividends, royalties, management fees, and other returns on investments can be repatriated at any time. Capital movements arising from trade in merchandise and services, as well as from debt servicing, are not restricted. No prior approval is required for movement of foreign currency funds not requiring exchange between the NT dollar and the foreign currency. No prior approval is required if the cumulative amount of inward or outward remittances does not exceed the annual limit of US\$5 million for a person or US\$50 million for a corporation. There are no reported delays in remitting investment returns or principal through legal channels.

¶11. An outbound investment may not exceed 40 percent of the investing company's net worth or paid-in capital (whichever is less), unless the company charter waived the 40 percent limit or unless such investment is approved by shareholders.

A local company is not required to obtain prior approval for overseas investments; however, such an approval exempts the company from the annual capital outflow limit of US\$50 million.

¶12. In April of 2002, Taiwan significantly relaxed restrictions on Taiwan entities' direct investment in China down to a negative list covering only about 100 manufacturing products and 430 agricultural products. In August of 2002, Taiwan abolished a requirement for direct investment in China to go through third nations or areas and removed a direct investment limit of US\$50 million. The ceiling on small and medium enterprises' investment in China was raised from NT\$60 million to NT\$80 million. For large enterprises, the Chinese investment may not exceed 20 percent of the company's net worth exceeding NT\$10 billion, 30 percent of net worth from NT\$5 billion to NT\$10 billion, or 40 percent of the net worth below NT\$5 billion. For investments below US\$200,000, prior approval can be obtained the same day the application is submitted. Taiwan has begun allowing direct investment in eight-inch silicon wafer plants in China with some restrictions. Taiwan authorities require an investor to submit a quarterly financial report if the cumulative investment in a project exceeds US\$20 million. Investors are encouraged to repatriate their capital and earnings.

¶13. Taiwan authorities have actively encouraged investment in Southeast Asian nations. Investments are also encouraged

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in a number of countries with which Taiwan has diplomatic relations, mainly in Central America. Incentives include loans and/or overseas investment insurance with the Export-Import Bank of ROC.

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A.3 Expropriation and Compensation  
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¶14. No foreign invested firm has ever been nationalized or expropriated in Taiwan. No examples of "creeping expropriation" or official actions tantamount to expropriation have been reported. Under Taiwan law no venture with 45 percent or more foreign investment can be nationalized for a period of 20 years after the venture is established. Expropriation can be justified only for national defense needs and "reasonable" compensation must be given.

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A.4 Dispute Settlement  
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¶15. Taiwan is not a member of the International Center for the Settlement of Investment Disputes or the New York Convention of 1958 on the recognition and enforcement of foreign arbitration awards. However, investment disputes are not common. Normally, Taiwan resolves disputes according to domestic laws and regulations.

¶16. Taiwan has comprehensive commercial laws, including Company Law, Commercial Registration Law, Business Registration Law, Commercial Accounting Law as well as laws for specific industries. Taiwan's Bankruptcy Law guarantees that all creditors have the right to share the assets of a bankrupt debtor on a proportional basis. Secured interests in property, both chattel and real, are recognized and enforced through a registration system.

¶17. Taiwan's court system is generally independent and free from overt interference by the Executive Branch. Judges are generally over-worked. In response to complaints about the slow pace of the judicial decision-making, Taiwan authorities adopted measures in 2002 to monitor the case processing time. Simplified courts have been set up to deal

with minor cases that can be resolved quickly. Special courts for intellectual property rights (IPR) cases have been established. Unfortunately, the IPR courts are required to hear all types of cases, thus diluting their value. The judgments of foreign courts with jurisdictional authority are enforced in Taiwan by local courts on a reciprocal basis.

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#### A.5 Performance Requirements and Incentives

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¶18. All of Taiwan's performance requirements were removed in January 2002 upon Taiwan's WTO accession except for industrial offset arrangement for Taiwan's military procurements. Like domestic firms, foreign invested-companies must be located in areas zoned for appropriate industrial or commercial use. Employment of foreign white-collar employees is subject to prior approval, and a requirement for such employment is a minimum capital of NT\$5 million if the employing company has a life less than one year or annual sales of NT\$10 million if the life of the employing company exceeds one year. Tax credits and tax breaks are offered to encourage the introduction of new technology into Taiwan. Tax credits are also offered to encourage companies to locate in less-developed areas of Taiwan. Subsidies of up to one-half of total expenditures

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are offered for R&D programs. Taiwan does not require that firms transfer technology, locate in specified areas, or hire a minimum of local employees as a prerequisite to investment.

¶19. Manufacturing firms located in export-processing zones and science-based industrial parks are required to export all of their production in exchange for tariff-free treatment of production inputs. However, these firms may sell on the domestic market upon payment of relevant import duties.

¶20. "Offsets," or requirements to make investments and/or transfer technology as a condition of a public procurement are generally not permitted under WTO guidelines that, however, do not cover military procurements. Taiwan authorities frequently impose offset obligations on successful bidders for large military procurements under an organized Industrial Cooperation Program (ICP) administered by the Industrial Development Bureau of the Ministry of Economic Affairs. Winning a Taiwan defense contract of US\$10 million or more triggers a direct or indirect offset obligation of at least 40 percent. In some cases, the offset ratio has reached 70 percent. Defense contractors frequently complain of lack of transparency and predictability in setting offset requirements. Although the U.S. Government's Foreign Military Sales (FMS) program does not recognize offset obligations, the successful vendor in an FMS transaction may nevertheless face offset obligations to the Taiwan authorities. Direct offsets are performance requirements directly related to the goods or services procured, such as a commitment to manufacture certain parts of a weapon system in Taiwan. Indirect offsets are less directly related, or even completely unrelated, to the sale. For example, a firm selling military aircraft to Taiwan might assume an obligation to introduce and/or invest in technologies that are central to the island's industrial policy such as biotechnology or nanotechnology. Most firms with substantial offset obligations employ in-house specialists or outside contractors to structure their offset programs.

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#### A.6 Right to Private Ownership and Establishment

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¶21. Private investors have the general right to establish



and own business enterprises, except in a limited number of industries involving national security and environmental protection. Private entities have the right to freely acquire and dispose of interests in business enterprises. Private business firms have the same access as state-owned companies to markets, credit, licenses, and supplies. Taiwan authorities have eliminated state-owned monopolies in such areas as power generation, oil refining, telecommunications, cigarette, and wine production.

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A.7 Protection of Property Rights  
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¶22. In 2005, Taiwan continued improving its IPR legal regime and enforcement. In addition to raids against manufacturers and retailers, transforming an ad hoc task force into a permanent agency, and strengthening border control inspection, the authorities initiated in May 2005 a program to deter internet piracy. The Intellectual Property Office (TIPO) has set up a joint task force to conduct internet inspections and will cooperate with enforcement agencies to implement this program over the next three years. To prepare for its WTO accession in 2002, Taiwan amended its Patent Law and Copyright Law in November 2001.

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The amendments extended the term of protection from 18 years to 20 years for some patents and defined computer software as literary works. To address the problem of CD/DVD piracy, Taiwan passed an Optical Media Law in October 2001. The law provides Taiwan authorities with a legal framework to manage CD manufacturing plants through licensing and the use of Source Identification (SID) codes in production. Offenders may receive prison terms up to three years and be fined up to NT\$6 million (US\$179,000). The Optical Media Law and the Joint Optical Disk Enforcement (JODE) Task Force's night and day inspections have led to a dramatic decrease in large-scale factory production of counterfeit CD products produced by CD plants. Taiwan again strengthened its copyright law in 2003 and 2004. These amendments made infringement a public crime, increased penalties for counterfeiters and made it illegal to tamper with technical protection measures. Following a 2004 amendment to the Pharmaceutical Law with stiffer penalty on production, distribution and sales of counterfeit medicines, Taiwan passed in January 2005 another amendment to the law to authorize pharmaceutical data exclusivity for 5 years so as to prevent unfair commercial data use.

¶22. Following its 2002 "IPR Action Plan", the Executive Yuan adopted a fresh IPR Action Plan for 2003-2005. One important measure within this "IPR Action Plan" framework was to establish in January 2003 an Integrated Enforcement Task Force (IETF) consisting of 220 IP police officers. The task force has frequently raided retail optical media sales points to enforce IP rights and has led to a significant decrease in the number of vendors of counterfeit CDs and DVDs. Further, the government transformed the task force to a permanent IP police squadron in November 2004. Other enforcement measures include increasing the reward (by ten times to NTD10 million (USD0.3 million) to IPR informants for counterfeiting seizures and setting up an anti-pirating CD export task force to strengthen inspection on the border.

¶23. Taiwan's Legislature passed amendments to the Patent and Trademark Laws in January and April of 2003, respectively. The amendments simplified the administrative and legal procedures for opposing patent applications and added sounds and 3-D shapes as elements eligible for trademark.

¶24. In general, Taiwan is moving towards improved IPR protection, but transshipment of counterfeit products from China to the United States remains a problem. Counterfeit goods from Taiwan seized by U.S. Customs dropped from

US\$26.5 million in FY2002 to US\$610,000 in FY2003, and Taiwan's ranking in counterfeit goods seized by the U.S. Customs dropped from "second" in 2002 to well below top ten. However, a sharp increase in transshipment of counterfeit goods from China in the past year has pushed the value of seized counterfeit goods up to US\$767,671 in the first half of FY2005, and Taiwan's ranking climbed back to "seven" on the U.S. Customs ranking in the six-month period. In addition, Taiwan is facing a growing internet-based piracy threat. Counterfeit and parallel imported pharmaceuticals are common in the Taiwan marketplace. Although the LY passed amendments to the pharmaceutical law in March 2004 to strengthen the penalties for dealing in counterfeit pharmaceuticals, enforcement remains relatively weak. Rights owners continue to complain of slow progress in judicial cases, or poor protection on trade dress properties, such as unregistered marks, packing configurations, and outward appearance features.

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A.8 Transparency of the Regulatory System  
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¶26. Taiwan has a set of relatively comprehensive laws and regulations regarding taxes, labor, health and safety.

¶27. Foreign investors note that in addition to tax incentives one of attractions of Taiwan's science-based industrial parks and export processing zones is that bureaucratic procedures associated with investment applications are relatively few and transparent. Outside these areas, the Industrial Development and Investment Center (IDIC) is supposed to function as the coordinator between investors and all agencies involved in the investment process. The Foreign Investment Commission (FIC) is charged with reviewing and approving inbound and outbound investments. However, especially for small investors in services the investment approval process can be daunting.

¶28. Taiwan has made much effort to simplify the work-permit issuance procedure for foreign white-collar employees. In March 2004, the Council of Labor Affairs (CLA) set up a single window to issue work permits for all white-collar workers. It takes 7 to 10 days for CLA to issue work permits. The work permit may be extended indefinitely as long as the employer considers the employment necessary.

¶29. In December of 2002, Taiwan removed the job experience requirement for employment of foreign management professionals by global operational headquarters and R&D centers in Taiwan as well as business firms of designated industries. White-collar workers having a master's degree or above are not subject to any job experience requirement. Those with lower education levels are required to have job experience. Foreign white- and blue-collar workers have the right to obtain permanent residence status after they have legally stayed in Taiwan for seven consecutive years with the minimum time of residence of 180 days per year in Taiwan. The seven-year requirement is waived for high-tech personnel and those who have made "significant contributions" to Taiwan.

¶30. The entry-visa issuance procedures for foreign white-collar workers who work for foreign-invested companies are relatively simple. A foreign executive who enters Taiwan with a tourist visa is no longer required to leave the island before the tourist visa can be transferred to an employment visa. A foreign executive whose employment visa expires is not required to exit before the visa can be renewed.

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A.9 Efficient Capital Markets and Portfolio Investment  
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¶31. A wide variety of credit instruments, all allocated on market terms, are available to both domestic- and foreign-invested firms. Legal accounting systems are largely transparent and consistent with international standards. The regulatory system is generally fair. Foreign portfolio investors are no longer subject to the foreign ownership limits or investment fund limits. In recent years, Taiwan authorities have taken a number of steps to encourage more efficient flow of financial resources and credit. The limit on NT dollar deposits that a branch of a foreign bank may take has been lifted. Non-residents are permitted to open NT dollar bank accounts, which are subject to capital-flow controls. After its accession to the WTO in January 2002, Taiwan lifted restriction on residents' opening bank accounts overseas. Limits on branch banking have been lifted, although approval must be obtained to open new branches. Restrictions on capital flows relating to portfolio investment have been removed. The insurance and securities industries have been liberalized and opened to foreign investment. Access to Taiwan's securities markets

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by foreign institutional investors has also been broadened.

¶32. Taiwan abolished the complicated regulatory system governing foreign portfolio investment in October 2003. In the past, only such approved "qualified foreign institutional investors" (QFIIIs) as large banks, insurance companies, securities firms and mutual funds, were permitted to engage in portfolio investment. Since then, any foreign institutional investor is allowed to enter Taiwan's markets, and registration has replaced prior approval. The minimum asset requirement has been removed. Investment and capital flows are not limited. On-shore foreign investors (like other residents) are still subject to capital flow limits of U.S. \$5 million for an individual foreign investor and US\$50 million for an unregistered foreign company.

¶33. In December of 2002, Taiwan removed all legal limits on foreign ownership in companies listed on the Taiwan Stock Exchange (TAIEX) except for certain industries, including power distribution, telecommunications, mass media firms, and airline companies. There have been no reports of private or official efforts to restrict the participation of foreign-invested firms in industry standards-setting consortia or organizations.

¶34. Taiwan has a tightly regulated banking system. Since the mid-1980s, the financial sector as a whole has been steadily opening to private investment. Nevertheless, the market share held by foreign banks remains relatively small (below three percent). The establishment of new securities firms, banks, insurance companies, and holding companies, has underscored this liberalization trend and enhanced competition. Four large state-owned banks were privatized in early 1998, four sold to the private sector in 1999, and one in 2005. The only reinsurance company was privatized in ¶2002. Privatization efforts have reduced the number of public banks to four and cut the share of assets controlled by public banks from 61 percent to 16.7 percent of total assets of all domestic and foreign banks. The total assets of these four public banks were NT\$4.64 trillion (US\$138 billion) as of June 2005.

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A.10 Political Violence  
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¶35. Taiwan is a relatively young multi-party democracy with still evolving, democratic political institutions. The close margin in the 2004 presidential election resulted in an attack on election offices and several large-scale demonstrations. Nevertheless, these incidents were peacefully resolved in a short time. There have been no reports of politically motivated damage to foreign



investment. Both local and foreign companies have, however, been subject to protests and demonstrations relating to labor disputes and environmental issues.

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A.11.a. Corruption  
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¶36. Taiwan has implemented laws, regulations, and penalties to combat corruption. The "Corruption Punishment Statute," and the criminal code contain specific penalties for corrupt activities. In January 2004, legislation doubled the penalties for corruption by financial personnel, including maximum jail sentences of up to ten years.

¶37. AIT is not aware of cases where bribes have been solicited for investment approval. Both central and local governments offer investors incentives including free rent on land for the first two years and discounts in subsequent

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years. Taiwan authorities encourage foreign investment and would take action against officials and individuals convicted of profiting illegally from foreign investors.

¶38. The Government Procurement Law promulgated in 1998 and amended in February 2001 as an element of Taiwan's accession to the WTO has brought significant improvements. The Public Construction Commission (PCC) publishes all major government procurement projects that require open bidding, in accordance with WTO transparency requirements. The PCC organizes inspection teams to monitor all public procurement projects both at the central and local levels. It publishes results of bidding and of inspections. A task force has been organized to investigate complaints.

¶39. Authorities generally investigate allegations of corruption and take action to penalize corrupt officials. Since its inauguration in May 2000, the Chen Administration has strengthened anti-corruption efforts. Since then, prosecutors have indicted 6,932 persons for corruption, including 380 senior officials (department director level and above) and 494 elected officials. Indicted elected officials including 19 legislators. In September 2004, a former speaker of the legislature was sentenced to jail for four years on a charge of taking a NT\$150 million (US\$4.5 million) bribe. Two heavy weights in the ruling party were forced to give up their titles as senior presidential advisors, one in 2003 and the other in 2005, because of allegations of corruption. In 2001, the Secretary General of the executive branch was forced to step down for corruption committed when he was Chairman of the state-owned Taiwan Sugar Corp.

¶40. Attempting to bribe, or accepting a bribe from, Taiwan officials constitutes a criminal offense, punishable under the "Corruption Punishment Statute" and the "Criminal Code." The Corruption Punishment Statute as amended in late 2002 treats payment of a bribe to a foreign official a criminal act and makes such a bribe subject to criminal prosecution. The maximum penalty for corruption is life imprisonment plus a maximum fine of three million NT dollars (US\$89,500). In addition, the offender may be barred from public office. The assets obtained from acts of corruption may be seized and turned over to either the injured parties or the Treasury.

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¶B. Bilateral Investment Agreements  
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¶41. Taiwan has concluded bilateral investment guaranty agreements with the following 25 countries: Argentina, Belize, Burkina Faso, Costa Rica, Dominica, El Salvador, Guatemala, Honduras, India, Indonesia, Liberia, Malaysia, Macedonia, the Marshall Islands, Nicaragua, Nigeria, Panama,

Paraguay, the Philippines, Saudi Arabia, Senegal, Singapore, Swaziland, Thailand, Malawi, and Vietnam. In addition, there is an agreement to guaranty Taiwan's investment in Malawi and another agreement to protect U.S. investment in Taiwan. (An agreement with Latvia signed in 1992 was revoked in August 2004.)

¶42. Under the terms of the 1948 Friendship, Commerce, and Navigation Treaty with the United States, U.S. investors are generally accorded national treatment and are provided with a number of protections, including protection against expropriation. Taiwan and the United States also have an agreement, signed in 1952, pertaining to investment guarantees that serve as the basis for the U.S. Overseas Private Investment Corporation (OPIC) program in Taiwan. In September 1994, representatives of the United States and Taiwan signed a bilateral Trade and Investment Framework

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Agreement (TIFA) to serve as the basis for consultations on trade and investment issues. Consultations on a bilateral investment agreement between the United States and Taiwan began in 1996, but are currently on hold.

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¶C. OPIC and Other Investment-Insurance Programs  
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¶43. OPIC programs are available to U.S. investors, though U.S. investors have never filed an OPIC insurance claim for an investment in Taiwan. Taiwan is not a member of the Multilateral Investment Guaranty Agency.

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¶D. Labor  
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¶44. As a result of Taiwan's changing industrial structure, labor shortages exist in hi-tech fields including semiconductor and computer chip design and production, computer software design, flat panel and display manufacturing, and telecommunications engineering. The law governing hiring procedures for professional engineering consulting firms continues to place an unnecessary burden on foreign personnel. A two-year work experience requirement for work permits restricts companies from hiring foreign interns or recent graduates. Taiwan began employment of foreign blue-collar workers in 1990 when Taiwan was a full employment economy with labor shortages. However, in the early 2000s, the relatively high unemployment rate prompted the government to restrict employment of foreign workers, reducing foreign workers in Taiwan by eight percent between 2000 and 2003. Economic expansion prompted Taiwan's government to slightly relax restrictions and foreign workers in Taiwan rose 6.8 percent from 298,392 persons in March 2004 to 320,614 persons in October 2005.

¶45. There are no special hiring practices in Taiwan. Wages typically include a one-month bonus at the end of a year. Fringe benefits often include meals, transportation, and dormitory housing. Dividend-sharing is common among high-tech industries. A standard labor insurance program is mandatory. The program provides maternity, retirement, and other benefits. A separate retirement program requires employers to grant employees with voluntary retirement at age of 55 years and a length of service of 15 years. The mandatory retirement age is 60 years. A new retirement system implemented in July 2005 abolishes the voluntary retirement scheme for workers regulated by the new system. Employees hired after July 2005 must join the new retirement system without any choice. The new system requires employers to contribute six percent of the monthly wage to employees' accounts at designated banking institutions, and the accounts follow employees transferred from one employer to another. A universal national health insurance system covers all employees and their families.

¶46. The Employment Insurance Law enacted in 2002 provides unemployment relief practices with a legal basis. Alternatives for unemployment pay include vocational training allowance for jobless persons and employment subsidy for employers to encourage employment of jobless persons. The Labor Standard Law (LSL) sets a standard eight-hour workday and a biweekly maximum of 84 hours. Legislation adopted in late 2000 set a five-day workweek for the public sector, effective January 2001. Nearly half of private firms have adopted the five-day workweek system. The LSL restricts child labor and requires employers to provide overtime pay, severance pay, and retirement benefits. The LSL covers both manufacturing and service sectors. Violators are liable to criminal penalties (jail

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terms) and administrative punishments (fines).

¶47. The minimum wage is set at NT\$15,840 (US\$473) per month. Current manufacturing sector wages average NT\$41,830 (US\$1,249). In principle, the minimum wage is adjusted in August every year based on the results of collective negotiation between the Chinese National Federation of Industries and the Chinese Federation of Labor Unions. However, for the past seven years, the minimum wage has not been adjusted.

¶48. Labor unions have become more active and independent since Taiwan's martial law was lifted in 1987. Economic expansion in 2003 and 2004 led to a decline in labor disputes in these two years, but economic slowdown in 2005 contributed to an increase in the first ten months of the year. Taiwan is not a member of the International Labor Organization but generally adheres to the ILO convention of protecting worker's rights.

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¶E. Foreign Trade Zones/Free Ports  
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¶49. Taiwan's first free trade/free port zone began operation at Keelung, Taiwan's northern port, in November 2004. Another four have been established in 2005. These four are located at CKS Airport in Taoyuan and Taiwan's three international harbors in Kaohsiung, Taichung, and Taipei. Several other zones are still under planning. Taiwan authorities have relaxed restrictions on movement of merchandises, capital and personnel into and out of such zones. Foreign investors are accorded national treatment.

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¶F. Foreign Direct Investment Statistics  
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¶50. Statistics on foreign direct investment in Taiwan are available from two sources. The Foreign Investment Commission (FIC) publishes monthly and yearly foreign investment approval statistics by industry and by country. The Central Bank of China (CBC) publishes foreign direct investment arrivals on a quarterly and yearly basis. CBC data, contained in balance-of-payments (BOP) statistics, are not further classified by industry or country.

¶51. A sharp increase in foreign demand contributed to over expansion of Taiwan's industrial sector in 2004 when manufacturing growth set a 17-year high of 10.6 percent and private investment growth reached a new record of 31 percent. However, excess inventory and excess production capacity, together with continued industrial relocation overseas, resulted in a contraction of 2.6 percent in private investment in the second half of 2005. Private investment is expected to see moderate growth of 3.2 percent in 2006 as manufacturing firms have begun an upturn in their business cycle in late 2005. For example, both semiconductor and flat panel display firms, two backbones of

Taiwan's manufacturing sector, reported an increase in their utilization of production facilities from 60-70 percent in late 2004 to 90-95 percent in late 2005.

¶52. Foreign investment in Taiwan is concentrated in electronics and electrical industries and the service sector. Approved direct investment in electronics and electrical industries including Semiconductor, TFT-LCD and other optical electronic projects soared 45 percent in 2003, and 140 percent 2004, but declined by 30 percent in the first three quarters of 2005. This category accounted for a quarter of the cumulative approved inbound direct investment. Seventy percent of the approved inbound direct

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investment in Taiwan's electronics and electrical industries came from the United States, Europe and Japan.

¶53. Approved inbound direct investment in the service sector (including banking & insurance, wholesale & retail, trade, and professional services), grew 17 percent in 2003, then declined 10 percent in 2004, and surged 34 percent in the first three quarters of 2005. This category constituted 41 percent of the cumulative approved inbound direct investment.

¶54. The United States and Japan used to be the two main sources of Taiwan's foreign investment, but they were replaced by the tax havens in the British Territories in America (BTA), which harbor a growing number of multinational corporations (many originating in Taiwan). Approvals for U.S. investment from 1952 to 2004 totaled US\$13.3 billion, or 22 percent of total foreign investment. Of total U.S. investment, 34 percent was directed toward the electronics and electrical industries, and 35 percent toward the service sector. Approvals for Japanese investment amounted to US\$12 billion, or 20 percent of total foreign investment, of which 28.4 percent was in electronics and electrical industries and 31 percent in the service sector.

¶55. Approvals for investment from the BTA surged steadily from US\$76 million in 1994 to US\$1.2 billion in 1999 when the BTA surpassed the United States and Japan to become the largest source of foreign investment in Taiwan. Investment from the BTA during 1999-2004 accounted for 27 percent of total approved investments, compared to 18.2 percent from the United States, 17.5 percent from Europe, and 14.7 percent from Japan. Twenty-seven percent of the investment from the BTA was directed towards the banking and insurance industries and another 21.5 percent to the electronic and electrical industries.

¶56. As a relatively open and liberal economy, Taiwan receives foreign investment while its businesses invest overseas, especially in China, Southeast Asia and the Americas. According to balance-of-payments statistics compiled by the CBC, outbound direct investment has exceeded inbound direct investment since 1988. According to FIC statistics, by the end of 2004 cumulative approvals for outbound investments totaled US\$83.3 billion. One of the main recipients of Taiwan investment has been China, which has received over two-thirds of Taiwan's outbound investment. Approved investments in China increased by 19 percent in 2003, and 51 percent in 2004, but declined 12.4 percent in the first three quarters of 2005.

¶57. Taiwan business firms started to relocate their production bases to China in the late 1980s. Production lines in China gradually shifted from cheap labor-oriented industries in the late 1980s to products requiring lower-end technologies, such as PC and motherboard, in the early 2000s. The WTO accession of China and Taiwan in 2002 prompted Taiwanese business firms to accelerate relocation to China to sharpen their competitive edge in exports. Taiwan factories based in China use the lower cost labor and land there to process Taiwan-made production inputs into

finished goods for exports to such industrial markets as the United States, Japan and Europe. Taiwan's direct investment across the Taiwan Strait grew from US\$1.25 billion in 1999 to US\$6.94 billion at the end of 2004. As a result of this trend China-based Taiwan factories produced 40.5 percent of export orders received by Taiwan headquarters by October 2005, up from 11.5 percent in early 2000, and the October 2005 ratio even exceeded 70 percent for electronic firms. Greater China (China plus Hong Kong) replaced the United States as Taiwan's largest export market in 2001, and Greater China's share of Taiwan's exports in the first ten

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months of 2005 reached 38 percent, much higher than the 15 percent for the United States and 12 percent for the European Union.

Table 1

Foreign Investment Approvals by Year and by Area  
(1952-2004) (unit: U.S. dollar million)

Year	U.S.A.	Japan	Central Amer.	Europe	Hong Kong	Other	Total
52-89	3,067	2,983	341	1,312	1,198	2,049	10,950
1990	581	839	66	283	236	297	2,302
1991	612	535	60	165	129	277	1,778
1992	220	421	37	165	213	405	1,461
1993	235	278	38	214	169	279	1,213
1994	327	396	76	245	251	336	1,631
1995	1,304	573	151	338	147	412	2,925
1996	489	546	417	198	267	544	2,461
1997	491	854	659	401	237	1,625	4,267
1998	952	540	711	367	274	895	3,739
1999	1,145	514	1,216	462	161	733	4,231
2000	1,329	733	2,300	1,000	271	1,775	7,608
2001	940	685	1,397	1,182	145	780	5,129
2002	600	609	803	609	66	585	3,272
2003	687	726	919	635	44	565	3,575
2004	362	824	896	964	195	712	3,953
52-04	13,342	12,055	10,087	8,740	4,002	12,269	60,495

Source: Foreign Investment Commission

Table 2

Foreign Investment Approvals by Industry and Area  
(1952-2004) (unit: U.S. dollar million)

Industry	U.S.A.	Japan	Cent. Amer.	Eur.	Hong Kong	Other	Total
Total	13,342	12,055	10,074	8,740	4,002	12,282	60,495
Electronics & Electrical	4,567	3,427	2,167	1,904	655	1,805	14,525
Banking & Insurance	2,379	416	2,684	2,143	696	2,639	10,715
Services	949	1,448	1,549	884	504	1,612	6,946
Chemicals	1,516	878	305	1,098	278	404	4,479
Wholesale & Retail	822	957	930	874	268	782	4,633
Trade	524	880	216	326	313	482	2,741
Basic Metal & Products	354	794	215	129	128	945	2,565
Machinery	380	842	232	216	118	299	2,087
Food & Beverage	254	270	109	245	127	403	1,408
Transportation	76	72	17	75	141	737	1,118
Transport Equipment	101	531	98	68	98	68	964
Non-metallic Minerals	257	250	40	96	81	184	908
Others	1,405	1,290	1,512	682	595	1,922	7,406

Source: Foreign Investment Commission

Table 3

Outbound Investment Approvals by Year and by Area



(1952-2004) (unit: U.S. dollar million)

Year	China	Central Amer.	U.S.A.	ASEAN	Others	Total
1952-89	n.a.	76	865	429	155	1,525
1990	n.a.	170	429	567	386	1,552
1991	174	268	298	720	370	1,830
1992	247	239	193	309	146	1,134

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1993	1,140	194	529	434	504	2,801
	(2,028)					(2,028)
1994	962	569	144	398	506	2,579
1995	1,093	370	248	326	413	2,450
1996	1,229	809	271	587	498	3,394
1997	1,615	1,051	547	641	655	4,509
	(2,720)					(2,720)
1998	1,519	1,838	599	478	381	4,815
	(515)					(515)
1999	1,253	1,359	445	522	943	4,522
2000	2,607	2,248	862	389	2,118	7,684
2001	2,784	1,693	1,093	523	1,083	7,176
2002	3,859	1,575	578	211	1,006	7,229
	(2,864)					(2,864)
2003	4,595	1,997	467	298	1,206	8,563
	(3,104)					(3,104)
2004	6,941	1,155	557	966	704	10,323
1952-04	41,249	15,612	8,124	7,799	10,533	83,317

Source: Foreign Investment Commission

Note: Figures in parentheses refer to investments made prior to the specified year but not previously registered.

Table 4

Outbound Investment Approvals by Industry and by Area  
(1952-2004) (unit: U.S. dollar million)

Industry	China	Cent. Amer.	U.S.A.	ASEAN	Others	Total
Total	41,249	15,612	8,124	7,799	10,533	83,317
Electronics & Electrical	14,044	429	2,597	2,925	1,779	21,774
Banking & Insurance	407	12,247	1,210	764	4,045	18,673
Services	1,428	1,111	1,169	192	652	4,552
Chemicals	2,801	68	1,099	552	144	4,664
Basic Metals & Products	3,704	76	50	639	231	4,700
Trade	352	931	259	69	765	2,376
Plastic Products	2,585	20	7	51	33	2,696
Food & Beverage	1,934	2	162	254	97	2,449
Precision Instrument	2,202	43	101	59	66	2,471
Wholesale & Retail	734	322	774	205	425	2,460
Textiles	1,446	21	43	651	180	2,341
Non-metallic Minerals	2,145	-	7	388	35	2,575
Others	7,467	342	646	1,050	2,081	11,586

Source: Foreign Investment Commission

Table 5

Technical Cooperation Projects by Year and by Area  
(1952-1995) (unit: number of projects)

Year	Japan	U.S.A.	Europe	Others	Total
52-89	1,996	728	412	103	3,221
1990	106	54	30	10	200
1991	80	65	33	8	186
1992	193	50	19	10	175

1993	85	50	34	12	181
1994	70	39	24	6	139
1995	50	29	10	5	94
52-95	2,483	1,015	562	136	4,196

Source: Foreign Investment Commission

Note: Taiwan ceased to compile statistics on technical

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cooperation with foreign companies in 1996. Businesses have not been required to report technical cooperation projects to the FIC since the Statute for Technical Cooperation was abolished.

Table 6

Technical Cooperation Projects by Industry and by Area (1952-1995) (unit: number of projects)

Year	Japan	U.S.A.	Europe	Others	Total
-----	-----	-----	-----	-----	-----
Total	2,483	1,015	562	136	4,196
Electronics & Electrical	708	416	106	16	1,246
Chemicals	416	203	160	28	807
Machinery	368	68	97	9	542
Basic Metal & Products	329	55	53	6	443
Other Services	111	106	27	42	286
Rubber Products	131	32	21	4	188
Non-metallic Minerals	97	22	24	2	145
Food and Beverage	80	38	13	9	140
Textiles	47	21	8	2	78
Construction	38	5	10	4	57
Garment & Footwear	18	14	4	3	39
Paper Products & Printing	19	13	4	-	36
Transport Equipment	20	2	8	1	31
Others	101	20	27	10	149

Source: Foreign Investment Commission

Table 7 Major U.S. Investors in Taiwan

U.S. Investor/ Local Investment	Major Products
-----	-----
NRG Energy/ Hsin Yu Energy Co.	power generation
Amkor Technology Ltd./ Amkor Technology Taiwan (Lungtan) Ltd. Amkor Technology Taiwan (Linkou) Ltd.	IC packing
AIG/ Yageo Corp. Far East Air Transport Corp. Nan Shan Life Insurance Co.	electronic component airlines insurance
Citi Co./ Fu Bong Group	banking/finance
Pruco Insurance Group/ Masterlink Securities Co.	securities
Corning Inc./ Corning Glass Taiwan Co., Ltd.	mother glass for TFT/LCD
GTE-Verizon Taiwan Fixed Network Telecom Taiwan Cellular Corp.	fixed-line and mobile phone service
Carlyle Group/	

Taiwan Broadband Co. (TBC)	cable TV
Ensite Limited (Ford Motor)/ Ford Lio Ho Motor Co.	autos
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Texas Instruments Inc. Texas Instruments Taiwan Ltd.	semiconductor
AMOCO Chemical Corp./ China American Petrochemical Co.	petrochemicals
E.I. Dupont De Nemours/ Dupont Taiwan Ltd.	industrial, electronic agricultural goods
IBM Corp./ IBM Taiwan Ltd.	computers: sales and service
AETNA Life Insurance Co./ Taiwan Branch	insurance
AT & T Inc./ AT & T Communications Services Taiwan Inc.	telecommunication: sales and services
Far EastOne Telecommunications Yuan-ze Telecommunications Ltd.	mobile phone service
View Sonic Co./ Taiwan PCS Network Inc.	mobile phone service
Warner Village Cinema Co./ Warner Village Cinema (Taiwan) Co.	movie theater operation
United Parcel Service International Inc. (UPS)/ UPS, Taiwan Branch	world wide express services
Intel Inc./InteX. Co.	ADSL chipset
Applied Materials Ltd./ Applied Materials Taiwan Ltd.	semiconductor mfg. equipment
General Motor Co./ Yulon GM Motor Co.	auto assembly & sales

Table 8 Major Japanese Investments in Taiwan

Japanese Investors/Investment	Major Products
Toppan Printing Co./ Toppan Electronics (Taiwan) Co. Toppan CFI (Taiwan) Co.	sales and produce color filter
Nippon Sheet Glass Co./ Taiwan Auto Glass Industry Co. Nippon Sheet Glass (Taiwan) Ltd.	auto glass mother glass
Asahi Glass Co. (AGC)/ Asahi Glass (Taiwan) Co.	mother glass
NTT DoCoMo/ KG Telecommunication Co	Phone service
Taiwan Shinkansen Corp./ Taiwan High Speed Rail Corp.	high speed rail
Sharp Corp./ Quanta Display Co.	TFT-LCD
Nissan Motor/Yulon Motor	autos
Toyota Motor/Kuozui Motor	autos
Matsushita Electronic Co./	electrical

Matsushita Electronic (Taiwan) Co., Ltd.	appliances
Hitachi Co./	electrical
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Taiwan Hitachi Co., Ltd.	appliance, and
Kaohsiung Hitachi electronics Co., Ltd.	components
Yamaha Motor Co., Ltd./	
Yamaha Motor Taiwan Co., Ltd.	motorcycle
Sankyo Co./Sankyo Co. Taipei	pharmaceuticals
Idemitsu Co./Shinkong Idemitsu Corp.	petrochemicals
Mitsui Co./Mitsui (Taiwan)	trading
Takashimaya Co./Ta-ya Takashimaya	department store
Dept. store	
Sumitomo Co./Sumitomo (Taiwan)	trading
Toshiba Co./Toshiba Compressor (Taiwan)	compressor
Sadagawa Steel Co./Sheng Yu Steel Co.	steel
Shin-Etsu Handotai Co./Shi-Etsu Handotai	
Taiwan Co.	semiconductor
Komatsu Co./	
Formosa Komatsu Silicon Co.	silicon wafer
Fujitsu Hitachi Plasma Display Co./	
Formosa Plasma Display Co.	PDP
Mitsui Mining & Smelting Co./	
Taiwan Copper Foil Co.	copper foil
Kirin Brewery Co./	
Taiwan Kirin Co.	beer

Table 9 Major European Investments in Taiwan

European Investors/Investment	Major Products
Saberasu Investments Co./	asset mgt
Cerberus Asset Management Co.	business
Goldman Sachs/	securities;
Goldman Sachs, Taipei Branch	underwriting
Deutsche Telecom/	fixed-line
Eastern Broadband Telecom	service
Volkswagen Ag/Ching Chung Motor Co.	autos
Dresdner Bank Ag/Grand Cathay Securities	securities
Imperial Chemical Inc./ICI Taiwan Ltd.	chemicals
N.V. Philips/Philips Electronics (Taiwan)	electronics
Alcatel Co./Alcatel Taisel Co.	switchboards
Internallianz Bank, Zurich/Kwang Hwa	securities
Securities	
Horwood Investment/Chi Mei Industry Co.	petrochemicals
H.S. Development & Finance/ChinaTrust	banking
Commercial Bank	
Infineon Technologies Inc./	
Promos Technologies Inc.	
Inotera Co.	DRAM
Siemens Telecommunications systems Ltd.	switch systems/

phone equipment

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Isenbourg-sgp, Lda/  
RT-Mart International Ltd.

shopping malls

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End table.

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